

Franchise Tax Board**ANALYSIS OF ORIGINAL BILL**

Author: Plescia Analyst: Jennifer Bettencourt Bill Number: AB 1938
Related Bills: See Legislative History Telephone: 845-5163 Introduced Date: February 12, 2008
Attorney: Douglas Powers Sponsor: _____

SUBJECT: Cat or Dog Spaying Or Neutering Costs Credit

SUMMARY

This bill would allow a personal income tax credit for the costs paid or incurred to spay or neuter a cat or dog.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to encourage pet owners to spay and neuter their pets to help control the pet population.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2008.

POSITION

Pending.

ANALYSISFEDERAL/STATE LAW

Existing state and federal laws provide various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Currently, there is no federal or state law that provides any type of tax benefit for spaying or neutering a dog or cat.

Board Position:

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Department Director**Date**

Selvi Stanislaus

3/26/08

THIS BILL

This bill would allow a personal income tax credit in the amount of 25% of the qualified costs paid or incurred by a taxpayer to spay or neuter a cat or dog. The credit would be limited to the qualified costs for up to two spaying or neutering operations per calendar year.

This bill would define “qualified costs” to include both the actual costs of the spaying or neutering operation and any follow up care associated with the operation.

This bill would allow any unused credit to be carried over until exhausted.

IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concerns. Department staff is available to work with the author’s office to resolve these and other concerns that may be identified.

This bill limits the credit to the spaying or neutering costs for up to two operations per calendar year for a taxable year. A couple who files a joint tax return may claim this credit for up to four operations, two per taxpayer. The author may wish to amend the bill to clarify whether the costs are limited to two operations per tax return, or per taxpayer.

The “qualified costs” for the credit allowed by this bill would include costs for follow up care associated with the spay or neuter operation. The term “follow up care,” is undefined and could lead to disputes between taxpayers and the department. To eliminate any confusion the author may wish to amend the bill to define the term.

LEGISLATIVE HISTORY

SB 430 (Vincent, 2001) would have provided a credit for spaying or neutering a cat or dog purchased or adopted by the taxpayer. SB 430 failed to pass out of the Senate Revenue and Taxation Committee.

OTHER STATES’ INFORMATION

Review of *Illinois*, *Massachusetts*, *Michigan*, *Minnesota*, and *New York* laws found no comparable tax credit to the one proposed by this bill. These states were reviewed because of the similarities between California income tax laws and their tax laws.

FISCAL IMPACT

This bill would not significantly impact the department’s costs.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue losses:

Estimated Revenue Impact of AB1938 Effective for Tax Years BOA January 1, 2008 (\$ in Millions)		
2008-09	2009-10	2010-11
-\$2	-\$2	-\$2

This estimate does not account for changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion

The revenue impact of this bill would be determined by the costs incurred for spaying or neutering dogs and cats and the amount of credits that would reduce tax liabilities.

Data from the American Veterinary Medical Association indicates that as of January, 2008, the state's current pet population includes 3.6 million unaltered dogs and 3.1 million unaltered cats with an annual growth rate of fewer than 200,000 animals. Based on data from nonprofit, low-income clinics, county animal control centers, and private veterinary centers, the average cost of a spay/neuter operation is \$96 for dogs and \$37 for cats.

To estimate the revenue impact of this bill, it is assumed that 2% of the existing population, 72,000 dogs and 62,000 cats, would be spayed or neutered each year beginning in 2008. The population is expected to increase annually by approximately 103,000 dogs and 89,000 cats; it is assumed that 30% of the increased population, 31,000 dogs and 27,000 cats, would be spayed or neutered.

Based on the average operation costs, costs eligible for the credit are estimated to be \$12 million as follows:

	Existing Population	Increase in Population	Total Existing and Increased Population	Spay/Neuter Cost	Total Costs
Dogs	72,000	31,000	103,000	\$93	~ \$9 million
Cats	62,000	27,000	89,000	\$37	~ \$3 million
Total Dogs and Cats					\$12 million

Applying the 25% credit to the \$12 million qualified costs results in approximately \$3 million in possible credits. Approximately 50% of the credit amount would be absorbed by sufficient tax liability. As a result, the revenue loss would be less than \$2 million per fiscal year.

POLICY CONCERNS

This bill lacks a sunset date. Sunset dates generally are provided to allow periodic review of the effectiveness of the credit by the Legislature.

This bill does not limit the number of years for the carryover period. The department would be required to retain the carryover on the tax forms indefinitely because an unlimited credit carryover period is allowed. Recent credits have been enacted with a carryover period limitation since experience shows credits typically are exhausted within eight years of being earned.

This bill could allow taxpayers in certain circumstances to claim multiple tax benefits for the same item of expense. To eliminate this concern, this bill could be amended to specify that the credit allowed under this section would be taken in lieu of any other credit or deduction allowed under other provisions for the same expenses.

LEGISLATIVE STAFF CONTACT

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